Savannah River Operations Office

ACCOUNTING FOR INTERNAL USE SOFTWARE

Status of the DOE Working Group's Progress in Developing Implementing Guidance for SFFAS No. 10

Presented by

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Standard #10 - Accounting for Internal Use Software

Internal Use Software is classified as "general property, plant & equipment"

Internal Use Software is software purchased off-the-shelf, internally developed, or contractor-developed solely to meet the entity's internal needs (i.e., most everything)

Internal Use Software (including functional enhancements must be capitalized if capitalization threshold is met

Capitalized costs include those incurred during the "software development" phase of a project as defined by Standard No. 10 (I.e., expense preliminary design phase and post implementation phases)

Standard #10 - Accounting for Internal Use Software (cont.)

Data conversions (considered post implementation) are not to be capitalized

Costs incurred prior to implementation of Standard 10 should not be restated or adjusted

Standard is effective FY 2001

Applies to both federal offices and contractor operations

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Standard 10 Working Group

Members Comprised From:

HQ-CFO   HQ-SO

HQ-MA   HQ-PSOs

Field Offices (SR, NV, CH, AL)

"Shadow" M&O Participation

Team Lead: Mary Rosicky

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Standard 10 Working Group

Holding Bi-Weekly Conference Calls

Prepared draft DOE Order on SFFAS No. 10

Resolving several major issues:

- How to Capture Federal Direct/Indirect Costs
    - Issue for some contractors too (e.g., how to collect costs for administrative systems)
- Useful Lives for Amortization
- EM Legacy Waste Write-off Policy
- Establishing a High (e.g.,> $500K) Capitalization Threshold
- Property Management Process

Capturing Federal Costs

Federally-developed/procured software (e.g., BMIS) capitalization costs must include direct/indirect costs

DOE's accounting systems do not capture these costs

How to report Software Work-in-Progress?

How to capture direct labor (use ETA LDS? Time Sheets?

How to develop indirect costs (DOE rate? Site rate?)

Use estimated manhours? (must pass audit standards since Internal Use Software will be a balance sheet entry)

Process needs to be in place by 10/1/00

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Software Useful Lives

Std 10 does not prescribe useful lives

DOE may decide to establish useful lives classes to avoid inconsistent practices

Current Working Group Proposal:

- Enterprise & Business Software -- 7 years
- Personal Productivity & Desktop Op Sys -- 3 years
- Scientific/Manufacturing Software -- 5 years
- Process Software -- 7 years
- S&S/Emergency Prep Software -- 7 years
- Operating Systems, Development Tools -- 5 years

EM Legacy Waste

CR-20 analyzing Legacy Waste rules to determine whether EM sites should be exempt from Standard No. 10

How to treat "hybrid" (e.g., EM/DP) sites?

How to treat ERPs at EM/hybrid sites (e.g., BMIS)?

Capitalization Cost Threshold

Std 10 permits software capitalization threshold to be different from other agency PP&E threshold

Need to set threshold high enough to avoid capturing small, user applications; and also not create administrative nightmare

But do not want to materially understate BS

Current thinking: Perhaps $500,000

Asset (Property) Management

Software is neither "tangible" (like furniture) nor "intangible" (like patents)

Should DOE track software via entity's property management system?

- What property record units should be established? (Site discretion?)

Since software will be included on BS, how should we establish asset tracking, custodianship, and verification to satisfy auditor concerns over internal controls for property?

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Standard # 10 Implementation

Impacts Numerous Functions

– Accounting

– Procurement

– Info Tech

– Property Management

– "Shadow" Systems Developers

– Users & Requisitioners

Bottom Line: Broad Education & Control Needed

Standard # 10 Implementation,CONT.

Will Require Extensive Procedural Revisions

– Procurement Directives*

– Accounting Directives

– IT Directives*

– Property Management Directives

* establish controls to capture software purchases exceeding capitalization threshold, and/or establish software project management rules

Standard # 10 Implementation,CONT.

May Require Accounting Systems Changes or Work-Arounds

– Ability to Capture Indirect Costs?

– Ability to Track IT Project Costs across FY's? (especially for business systems development)

– Ability to Track and Amortize Intangible Capitalizable Assets? And to Capture and Amortize Improvements?

– Ability to Apply Project Management Practices to "Overhead" Software Development?

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Path Forward

Major Contractors evaluate systems and practices to prepare for Std 10 implementation (use draft order as basis)

Resolve issues/propose solutions

Distribute draft DOE Order thru FMC by mid-May

Final Order out by EOFY 2000